Allowance for Doubtful Accounts

Management makes estimates of the uncollectibility of the Company's accounts receivable. Management evaluates specific accounts where the Company has information that the customer may be unwilling or unable to pay the receivable in full. In these cases, the Company uses its judgment, based on the best available facts and circumstances, and records a specific allowance for that customer against amounts due in order to reduce the receivable to the amount that is expected to be collected. The specific allowances are re-evaluated and adjusted as additional information is received that impacts the amount allowed for. After all reasonable attempts to collect the receivable have been explored, the receivable is written off against the allowance. Based on the information available, the Company believes that the allowance for doubtful accounts as of December 31, 2004 was adequate. However, no assurances can be given that actual write-offs will not exceed the recorded allowance.

Liquidity and Capital Resources

Cash and Cash Equivalents

	December 31,	
	2004	**2003**
	(In thousands)	
Cash and equivalents	$93,246	$93,865
Restricted cash – in escrow	$ 1,705	$ 1,524
Restricted cash – held as collateral	–	4,602
Total restricted cash	$ 1,705	$ 6,126

Restricted cash held in escrow relates to deposits made as escrow for release of retention on specific projects performed for municipalities and state agencies. Restricted cash held as collateral related to deposits posted as collateral for a casualty insurance policy. In the first quarter of 2004, the Company issued letters of credit to satisfy this requirement, and the restricted cash balance of $4.6 million was released.

At December 31, 2004, the Company had an unrestricted cash and equivalents balance of $93.2 million compared to $93.9 million at December 31, 2003. This position was achieved after $35.2 million in capital expenditures and $19.0 million in debt repayments in 2004. The Company also received $9.1 million in tax refunds and $3.6 million from the exercise of stock options in 2004. The Company expects to use these funds for a variety of purposes including working capital to fund growth, capital and operating expenses, research and development of new products, and development of new markets.

Cash Flows from Operations

The Company's primary source of cash is operations, which provided $42.6 million in 2004 compared to $31.9 million provided by continuing operations in 2003. Changes in working capital provided $15.5 million in 2004 compared to $5.2 million in 2003. Cash received from customers increased in 2004 compared to 2003 as evidenced by increased revenues and a lower accounts receivable balance. These factors coupled with an increase in accounts payable and accrued expenses were partially offset by increases in retainage and costs and estimated earnings in excess of billings (unbilled receivables). Unbilled receivables arise when costs are incurred and revenue recognized before billings can be issued to the customer. Much of the unbilled balance relates to projects in the early stages of construction that have to reach a certain stage of completion before progress billings can be issued. Another significant factor in working capital changes in 2004 was the receipt of $9.1 million in tax refunds in the first quarter.

Depreciation increased by $2.0 million compared to 2003 due to increased capital expenditures and consequently higher depreciation costs. Amortization expense increased $0.3 million primarily due to

amortization of intangibles acquired with Insituform East, Inc. in September 2003. Amortization of Insituform East intangibles was $0.6 million in 2004.

Continuing operations contributed $31.9 million in operating cash flow in 2003 compared to $25.6 million in 2002. After discontinued operations, operating cash flows were $37.0 million in 2003 compared to $26.5 million in 2002. Operating cash flow in 2003 primarily consisted of earnings before depreciation and amortization combined with changes in working capital. Operating cash flow in 2002 primarily consisted of earnings before depreciation and amortization offset by cash used to invest in working capital.

Cash Flows from Investing Activities

Cash used in investing activities includes $35.2 million of capital expenditures in 2004 compared to $19.9 million of capital expenditures in 2003. Major capital expenditures included approximately $4.1 million for expansion and upgrade of the Company's manufacturing facility in Batesville, Mississippi. Other significant additions included equipment necessary for new crews and ongoing replacement or renewal of aging equipment. The Company received $1.9 million from the disposal of fixed assets in 2004 compared to $1.4 million in 2003. Capital expenditures are expected to continue at an elevated level into 2005 as the Company continues to replace older, less efficient equipment and expand crew capacity. In addition to capital expenditures, the Company invested $0.8 million in its fifty-percent owned joint venture in Italy in 2004. In January 2005, the quotaholders (stockholders) of the joint venture approved the joint venture's liquidation, as the joint venture was no longer financially viable. No further cash contributions to the joint venture are anticipated.

Cash used in investing activities in 2003 consisted primarily of $19.9 million in capital expenditures and $7.8 million in acquisitions. The acquisitions included Insituform East in September 2003 and Ka-Te Insituform in November 2003. Investing activities in 2002 included $21.8 million in capital expenditures and $8.5 million used in the acquisition of Elmore Pipe Jacking, Inc. These cash uses were partially offset by proceeds received from the sale of assets and businesses, mostly related to the sale of certain businesses that were part of the Company's discontinued operations.

Cash Flows from Financing Activities

Cash flows from financing activities were primarily debt repayments of $19.0 million in 2004. In 2003, payments on long-term debt and lines of credit were $50.2 million, but were offset by the issuance of Senior Notes, Series 2003-A in the amount of $65.0 million. Debt repayments in 2004 primarily consisted of a normal scheduled principal amortization of $15.7 million of the Series A Senior Notes and the repayment of the Company's $3.0 million Euro note. Debt repayments were $20.9 million in 2002, but were partially offset by net borrowings on the Company's line of credit of $10.2 million.

Total debt, including current maturities, was $112.3 million at December 31, 2004 compared to $131.3 million at December 31, 2003. The balance at the end of 2004 principally consisted of $47.1 million of Series A Senior Notes, which have principal amortization payments of $15.7 million due in 2005, 2006 and 2007, and $65.0 million of Series 2003-A Senior Notes, which are due in full in 2013. Interest is payable on the Senior Notes semiannually. See " – Financings" for a further discussion of debt.

During 2004, the Company received $3.6 million in cash from the exercise of employee stock options compared to $0.4 million in 2003 and $2.5 million in 2002. The Company did not purchase treasury stock in 2004, but purchased $1.6 million and $5.2 million in treasury stock during 2003 and 2002, respectively.

Other Changes in Financial Condition

Net accounts receivable were $78.7 million and $90.8 million at December 31, 2004 and 2003, respectively. The decrease in accounts receivable was partially offset by an increase in retainage and costs

and estimated earnings in excess of billings (unbilled receivables). During 2004, the Company achieved improved cash collections, lowering its days' sales outstanding to 90 days at December 31, 2004 compared to 100 at December 31, 2003. The calculation of days' sales outstanding includes retainage and unbilled receivables.

Prepaid expenses and other assets increased by $2.0 million primarily due to tax refund receivables recorded in the fourth quarter of 2004 partially offset by the previously mentioned receipt of $9.1 million in tax refunds, which were recorded as a receivable at December 31, 2003.

Financings

See Notes 9 and 16 to the Company's Consolidated Financial Statements contained in this report for additional information regarding the Company's financings.

As a result of the net loss incurred in the fourth quarter of 2004, the Company was out of compliance with the fixed charges coverage ratio under its Series A Senior Notes as of December 31, 2004. The actual fixed charges coverage ratio at December 31, 2004 was 1.64 to 1.0 as compared with the required minimum fixed charges coverage ratio under the Series A Senior Notes of 1.7 to 1.0 at December 31, 2004. The default under the Series A Senior Notes resulted in a cross-default under the Series 2003-A Senior Notes and the bank line of credit facility with Bank of America. On March 16, 2005, the Series A Senior Note holders, and the Series 2003-A Senior Note holders waived the default and cross-default as of December 31, 2004, and amended the debt covenants under the Series A and the Series 2003-A Senior Notes. The bank also waived the cross-default as of December 31, 2004 and agreed to incorporate the amended debt covenants of the Series A Senior Notes and the Series 2003-A Senior Notes into its credit facility. The Company expects to maintain covenant compliance with respect to the amended covenants throughout 2005 and beyond.

Effective March 16, 2005, the Company agreed to increase the interest rate on the Series A Senior Notes from 7.88% per annum to 8.88% per annum and to increase the interest rate on the Series 2003-A Senior Notes from 5.29% per annum to 6.54% per annum, to obtain the default and cross-default waivers and less restrictive financial covenants. The Company also paid its creditors approximately $240,000 in fees for the waivers and amendments. The Company will expense financing costs of $0.5 million in the first quarter of 2005 related to these amendments. The table below sets forth the new covenants, which were effective on March 16, 2005:

Description of Covenant	Fiscal Quarter	Amended Covenant[2, 3]
$110 million 8.88% Senior Notes, Series A, due February 14, 2007 and $65 million 6.54% Senior Notes, Series 2003-A, due April 24, 2013		
Fixed charge coverage ratio[1]	First quarter 2005	No less than 1.25 to 1.0
	Second quarter 2005	No less than 1.25 to 1.0
	Third quarter 2005	No less than 1.50 to 1.0
	Fourth quarter 2005	No less than 1.75 to 1.0
	First quarter 2006	No less than 2.00 to 1.0
Ratio of consolidated indebtedness to EBITDA[1]	First quarter 2005	No greater than 4.25 to 1.0
	Second quarter 2005	No greater than 4.00 to 1.0
	Third quarter 2005	No greater than 4.00 to 1.0
	Fourth quarter 2005	No greater than 3.00 to 1.0
	First quarter 2006	No greater than 3.00 to 1.0
Consolidated net worth[1]	First quarter 2005 and each quarter thereafter	No less than $260 million plus 50% of net income after December 31, 2004 on a cumulative basis
Consolidated indebtedness to consolidated capitalization[1]	First quarter 2005 and each quarter thereafter	No greater than 0.45 to 1.0

(1) The ratios are calculated as defined in the Note Purchase Agreements, as amended, which have been incorporated into the Company's Annual Report on Form 10-K for the year ended December 31, 2004 as exhibits 10.2 and 10.3.

(2) The ratios for each quarter are based on rolling four-quarter calculations of profitability. The loss in the fourth quarter of 2004 will have a negative impact on the ratios through the third quarter of 2005.

(3) The line of credit facility with Bank of America has incorporated the amended covenants for the Series A Senior Notes and the Series 2003-A Senior Notes into the line of credit agreement. See Note 9 to the Company's Consolidated Financial Statements contained in this report for additional information regarding the credit facility.

These agreements also obligate the Company to comply with other restrictive covenants that, among other things, place limitations on operations and sales of assets by the Company or its subsidiaries, and limit the ability of the Company to incur secured indebtedness and liens. Such agreements also obligate the Company's subsidiaries to provide guarantees to the holders of the Senior Notes if guarantees are given by them to certain other lenders.

In the third quarter of 2004, the Company repaid its Euro Note of €2.4 million (US $3.0 million) in full. The Euro Note's scheduled maturity was in 2006. The premium paid to the creditor for early extinguishment was not material.

The Company believes it has adequate resources and liquidity to fund future cash requirements and debt repayments for at least the next twelve months with cash generated from operations, existing cash balances, additional short- and long-term borrowing and the sale of assets.

Disclosure of Financial Obligations and Commercial Commitments

The Company has entered into various financial obligations and commitments in the course of its ongoing operations and financing strategies. Financial obligations are considered to represent known future cash payments that the Company is required to make under existing contractual arrangements, such as debt and lease agreements. These obligations may result from both general financing activities as well as from

commercial arrangements that are directly supported by related revenue-producing activities. Commercial commitments represent contingent obligations of the Company, which become payable only if certain pre-defined events were to occur, such as funding financial guarantees. See Note 14 to the Company's Consolidated Financial Statements contained in this report for further discussion.

The Company has entered into several contractual joint ventures in order to develop joint bids on contracts for its installation business and for tunneling operations. In these cases, the Company could be required to complete the joint venture partner's portion of the contract if the partner were unable to complete its portion. The Company would be liable for any amounts for which the Company itself could not complete the work and for which a third party contractor could not be located to complete the work for the amount awarded in the contract. While the Company would be liable for additional costs, these costs would be offset by any related revenues due under that portion of the contract. The Company has not experienced material adverse results from such arrangements. Based on these facts, the Company currently does not anticipate any future material adverse impact on its consolidated financial position, results of operations or cash flows.

The following table provides a summary of the Company's financial obligations and commercial commitments as of December 31, 2004 (in thousands). This table includes cash obligations related to principal outstanding under existing debt arrangements and operating leases.

Payments Due by Period

Cash Obligations(1)	Total	2005	2006	2007	2008	2009	Thereafter
Long-term debt	$112,283	$15,778	$15,795	$15,710	$ –	$ –	$65,000
Interest on long-term debt	40,070	7,221	5,823	4,425	4,251	4,251	14,099
Line of credit facility(2)	–	–	–	–	–	–	–
Operating leases	43,923	13,687	9,747	8,186	6,958	3,384	1,961
Total contractual cash obligations	$196,276	$36,686	$31,365	$28,321	$11,209	$7,635	$81,060

(1) Cash obligations herein are not discounted. See Notes 9 and 14 to the Company's Consolidated Financial Statements contained in this report regarding long-term debt and commitments and contingencies, respectively.

(2) As of December 31, 2004, there was no borrowing balance on the credit facility and therefore there is no applicable interest rate as the rates are determined on the borrowing date. The available balance was $13.0 million, and the commitment fee was 0.40%. The remaining $12.0 million was used for non-interest bearing letters of credit, the majority of which were collateral for insurance. The Company generally uses the credit facility for short-term borrowings and discloses amounts outstanding as a current liability. See Note 16 to the Company's Consolidated Financial Statements contained in this report regarding refinancing of the line of credit facility.

Off-Balance Sheet Arrangements

The Company uses various structures for the financing of operating equipment, including borrowing, operating and capital leases, and sale-leaseback arrangements. All debt, including the discounted value of future minimum lease payments under capital lease arrangements, is presented in the consolidated balance sheet. The Company's commitments under operating lease arrangements were $43.9 million at December 31, 2004. The Company also has exposure under performance guarantees by contractual joint ventures and indemnification of its surety. However, the Company has never experienced any material adverse effects to its consolidated financial position, results of operations or cash flows relative to these arrangements. All foreign joint ventures are accounted for using the equity method. The Company has no other off-balance sheet financing arrangements or commitments. See Note 14 to the Company's Consolidated Financial Statements contained in this report regarding commitments and contingencies.

Effects of Transactions With Related and Certain Other Parties

Affholder, Inc., the Company's wholly-owned subsidiary that comprises the tunneling segment, owns, or leases under long-term operating leases with third-party leasing companies, several pieces of tunneling equipment, including cranes and tunnel boring machines. From time to time for specific projects, Affholder will lease additional equipment from a variety of sources. During 2004, Affholder leased four cranes and two tunnel boring machines from A-Y-K-E Partnership. A-Y-K-E is a partnership that is controlled by Robert W. Affholder, a member of the Company's board of directors. During the year ended December 31, 2004, Affholder paid A-Y-K-E $460,000 pursuant to equipment leases. This amount represents 8.6% of all lease payments made by Affholder during 2004 and 2.1% of all lease payments made by the Company in 2004. The cranes and tunnel boring machine that are currently under lease are leased under separate lease agreements on terms that are substantially similar to, or better than, those otherwise available to Affholder in the market. The leases are terminable upon 30 days' prior notice by either party. During 2004, A-Y-K-E leased equipment only to Affholder. At Affholder's discretion, Affholder may sublease the equipment to third parties and retain any profit generated from the sublease.

New Accounting Pronouncements

For a discussion of new accounting pronouncements, see Note 2 to the Company's Consolidated Financial Statements contained in this report.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Risk

The Company is exposed to the effect of interest rate changes, foreign currency and commodity price fluctuations. Due to the immateriality of potential impacts from changes in these rates, the Company does not use derivative contracts to manage these risks.

Interest Rate Risk

The fair value of the Company's cash and short-term investment portfolio at December 31, 2004 approximated carrying value. Given the short-term nature of these instruments, market risk, as measured by the change in fair value resulting from a hypothetical 10% change in interest rates, is not material.

The Company's objectives in managing exposure to interest rate changes are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, the Company maintains fixed rate debt. The fair value of the Company's long-term debt, including current maturities and the amount outstanding on the line of credit facility, approximated its carrying value at December 31, 2004. Market risk was estimated to be $3.1 million as the potential increase in fair value resulting from a hypothetical 10% decrease in the Company's debt specific borrowing rates at December 31, 2004.

Foreign Exchange Risk

The Company operates subsidiaries, and is associated with licensees and affiliates operating solely in countries outside of the United States, and in currencies other than the U.S. dollar. Consequently, these operations are inherently exposed to risks associated with fluctuation in the value of the local currencies of these countries compared to the U.S. dollar. At December 31, 2004, the Company's holdings in financial instruments denominated in foreign currencies were immaterial.

Commodity Risk

The Company has exposure to the effect of changes in commodity pricing related to a variety of raw materials and activities that the Company purchases and utilizes in its operating activities, including resin, fiber, pipe and fuel. During the year, the Company experienced increases in costs related to unfavorable changes in commodity prices, which have been discussed in this Item 7. The Company manages this risk by entering into agreements with suppliers, when possible, to mitigate the effects of fluctuations in the underlying commodity markets.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f).

Under the supervision and with the participation of company management, including the Chief Executive Officer and Chief Financial Officer, an evaluation was performed of the effectiveness of the Company's internal control over financial reporting as of the year ended December 31, 2004. In performing this evaluation, management employed the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework.*

Based on the criteria set forth in *Internal Control – Integrated Framework*, management, including the Company's Chief Executive Officer and Chief Financial Officer, has concluded that the Company's internal control over financial reporting was effective as of December 31, 2004.

Company management does not expect that its system of internal control over financial reporting and procedures will prevent all misstatements due to inherent limitations. Therefore, management's assessment provides reasonable, but not absolute, assurance that misstatements will be prevented and/or detected by the established internal control and procedures over financial reporting.

Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

/s/ Thomas S. Rooney, Jr.
Thomas S. Rooney, Jr.
President and Chief Executive Officer

/s/ Christian G. Farman
Christian G. Farman
Senior Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and the Stockholders of Insituform Technologies, Inc.:

We have completed an integrated audit of Insituform Technologies, Inc.'s 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Insituform Technologies, Inc. and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and

expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

St. Louis, Missouri
March 16, 2005